

GA2/100.10/13605/1996

c. 2

COLORADO STATE PUBLICATIONS LIBRARY
GA2/100.10/13605/1996 c.2 local
Colorado, Office of/Department of Agricu



3 1799 00022 2646



REPORT OF THE STATE AUDITOR

DEPARTMENT OF AGRICULTURE

**FINANCIAL REVIEW
FEBRUARY 1996**

**LEGISLATIVE AUDIT COMMITTEE
1996 MEMBERS**

Representative Norma Anderson
Chairman

Representative Ben Clarke
Vice-Chairman

Representative Steve Acquafresca
Senator Tilman M. Bishop
Senator Rob Hernandez
Senator Ray Powers
Representative Dan Prinster
Senator Bill Thiebaut

State Auditor's Office Staff

J. David Barba
State Auditor

Mike Acimovic
Jeff Blanford
Darren Dodson
Legislative Auditors



STATE OF COLORADO

J. DAVID BARBA, C.P.A.
State Auditor

OFFICE OF STATE AUDITOR
(303) 866-2051
FAX (303) 866-2060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

February 15, 1996

Members of the Legislative Audit Committee:

This report contains the results of a financial review of the Department of Agriculture. The review was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. This report presents our findings, conclusions, and recommendations, and the responses of the Department of Agriculture.

J. David Barba

TABLE OF CONTENTS

	Page
REPORT SUMMARY	1
Recommendation Locator	5
DESCRIPTION OF THE DEPARTMENT OF AGRICULTURE	7
FINDINGS AND RECOMMENDATIONS	
Chapter 1. Management Controls	11
Internal Accounting Controls	12
Performance Measures	14
Employee Performance Appraisals	15
Licenses and Inspections	16
Prior Year Recommendations	17



**STATE OF COLORADO
OFFICE OF STATE AUDITOR**

REPORT SUMMARY

J. DAVID BARBA, C.P.A.
State Auditor

**Department of Agriculture
Financial Review
February 1996**

Authority, Purpose, and Scope

This financial review of the Department of Agriculture was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments of state government. We performed our work from November 1995 to January 1996.

The purpose and scope of this review were to:

- Review the Department of Agriculture's internal accounting controls.
- Evaluate the Brand Inspection Division's measures for demonstrating the effectiveness of its program.
- Review the Department's system for evaluating employee performance.
- Review the relationship between planned levels of inspection and licensing activity versus actual performance.
- Determine the Department's implementation of prior audit recommendations.

The following is a summary of the major findings and recommendations included in the report.

Internal Accounting Controls

Overall, we found that the Department has implemented a sound internal control structure. However, we noted one control area--cash receipts--in which the Division of Plant Industry can improve.

The Division of Plant Industry collects fees for several licensing programs including pesticide products and applicators, nursery stock dealers, organic produce growers, and chemigation operators. License fees and applications are typically received at the Department by mail. We found that the fees are not deposited immediately with the State Treasury. The fees are held for up to three days by the Department's cashier while the applications are reviewed by Division personnel. Holding the receipts results in lost interest earnings to the Department and increases the risk of loss, theft, or misappropriation.

For further information on this report, contact the State Auditor's Office at (303) 866-2051.

The Plant Industry Division and the Accounting Section have not reviewed each program to determine if the current licensing process is necessary for each program. A review was initiated for two of the Division's ten programs, and it determined that receipts could be deposited immediately for both pesticide registrations and seed dealer licenses. However, the remaining programs in the Division have not been reviewed and should be.

We recommend that the Department of Agriculture review each program in the Plant Industry Division to determine how the license-application process can be redesigned to result in immediate deposit of receipts.

Department of Agriculture Response:

Agree. The Division of Plant Industry will review each program to determine whether the license-application process can be redesigned to result in immediate deposit of receipts.

Performance Measures

We reviewed the performance measures reported by the Brand Inspection Division. We found that the measures currently reported by the Division do not provide useful information on how well all goals are being met. One of the Division's primary goals is to reduce livestock theft. However, the Division's performance measures do not address how efficiently this goal is being achieved. The Division does include information on the livestock theft percentage in Colorado, but does not include information showing whether the percentage is increasing or decreasing, or how this percentage compares with other states. In addition, no measures are included that show the value of livestock stolen or recovered in relation to program costs.

Lacking useful efficiency and effectiveness measures, the Division cannot demonstrate that it manages its program in the most prudent manner. These types of measures should be developed. This would provide information to management, legislators, and other interested parties for use in decision making.

We recommend that the Brand Inspection Division develop effectiveness and efficiency measures related to its goal of reducing livestock theft and report the results of these measures in its Budget Request.

Department of Agriculture Response:

Agree. The effectiveness and efficiency measures related to reducing livestock theft will be developed for the 1998 Budget Request, and the results will be reported in the 1999 Budget Request.

Summary of Progress in Implementing Prior Audit Recommendations

We followed up on the implementation status of two recommendations from the 1994 performance audit at the Department of Agriculture. We found that both of these recommendations had been implemented.

We also followed up on one recommendation from the 1994 audit of the State Fair Authority. We found that this recommendation had been partially implemented by the Department.

RECOMMENDATION LOCATOR

Agency Addressed: Department of Agriculture

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	13	Review each program in the Plant Industry Division to determine how the license-application process can be redesigned to result in immediate deposit of receipts.	Agree	December 1996
2	14	Develop effectiveness and efficiency measures related to the Brand Division's goal of reducing livestock theft, and report the results of these measures in the Budget Request.	Agree	July 1996
3	16	Ensure all supervisors perform all employee evaluations on a yearly basis, provide all employees with progress reviews at least once during the evaluation period and properly document the reviews, and document follow-up on corrective-action plans.	Agree	July 1996

Description of the Department of Agriculture

Overview

The Colorado Department of Agriculture was established in 1949. The Department is governed by a nine-member commission, which is appointed by the Governor. The Governor also appoints a Commissioner of Agriculture, who serves as the executive director of the Department. The main statutory duties of the Department are:

- Performing regulatory and inspection services related to animal and plant health.
- Setting inspection and license fees.
- Encouraging standardization in the grading, inspection, labeling, handling, storage, and marketing of agricultural products.
- Extending the distribution and sale of Colorado agricultural products throughout the markets of the world.
- Controlling and eradicating predatory animals and other agricultural pests.
- Testing standards of weights and measures.
- Inspecting and registering brands on livestock.

The Department's Mission Is Broad and Funding Is Varied

As these duties suggest, the Department of Agriculture's mission is broad. According to documents prepared by Department staff, the mission of the Department of Agriculture is to:

...strengthen agriculture's future, provide consumer protection, promote environmental quality and animal health, and ensure equity and integrity in business and government.

To meet its mission, the Department of Agriculture works with several Boards including the Central Filing Board, the Colorado Wine Industry Development Board, and the Aquaculture (fish farming) Board. In carrying out its functions, the Department also works with the Environmental Protection Agency (EPA), U.S. Department of Agriculture, U.S. Food and Drug Administration, Colorado Department of Public Health and Environment, Colorado State University's Cooperative Extension, Colorado Beef Council Authority, Sheep and Wool Authority, Colorado Agricultural Development Authority, and the Division of Wildlife at the Colorado Department of Natural Resources.

Activities at the Department of Agriculture are carried out by six organizational divisions:

- **Commissioner's Office and Administrative Services** - This Division provides administrative support to all programs and activities within the Department, including policy formulation, planning, accounting, budgeting, and personnel. The Division employs 21 full-time-equivalent (FTE) staff.
- **Animal Industry, Plant Industry, and Inspection and Consumer Services** - These three Divisions perform regulatory, laboratory, veterinary, animal protection, pest control, and consumer protection services. The bulk of the Department's personnel form these three Divisions and total about 158 FTE.
- **Agricultural Markets** - This Division provides local, national, and international marketing assistance to Colorado agricultural producers and processors. This Division employs 11 FTE.
- **Brand Inspection** - This Division is responsible for registering and inspecting brands on livestock to validate ownership at the time of sale or transport. All brand registration and inspection activities are administered under the auspices of the State Board of Stock Inspection, also known as the Brand Board. About 65 FTE work in this Division.

About half of the Department's 255 FTE are located at four sites within the Denver metropolitan area. The remaining FTE work in branch offices in Palisade and Monte Vista or perform field activities, such as inspections, out of their homes.

For Fiscal Year 1996 the Department was appropriated approximately \$16 million. The sources of these appropriations are shown in the following table. Total funding, as well as percentage of funding by source, has remained relatively stable for the past three fiscal years.

Funding Source	FY 1996 Appropriations	Percentage of Total
Cash Funds	\$ 8,049,120	50
Cash-Exempt	1,078,815	7
General Funds	6,573,029	41
Federal Funds	416,116	2
TOTAL	\$16,117,080	100

Much of the cash funding is derived from licenses and permits issued by the Department and from inspections performed by the Department.

Management Controls

Chapter 1

Overview and Audit Findings

We performed a financial review of the Department of Agriculture. This review focused on:

- **Internal Accounting Controls** - We found that the Department could improve its cash-handling procedures. We also found that a proper correlation exists between the number of license and inspection activities reported and the amount of revenue recorded.
- **Performance Measures** - We found that the Brand Inspection Division could develop more useful measures for demonstrating the effectiveness of its program.
- **Employee Performance Appraisals** - We found that the Department could improve its system for evaluating employee performance.
- **Licenses and Inspections** - We found that the Department has generally done a good job of estimating the number of licenses to be issued and inspections to be performed.
- **Prior Year Recommendations** - We found that the Department had implemented the two recommendations we reviewed from the 1994 performance audit of the Department, and had partially implemented the recommendation we reviewed from the 1994 audit of the State Fair Authority.

Our findings and conclusions related to these areas are explained in greater detail below.

Internal Accounting Controls

As part of our internal control review, we examined the correlation between the number of licensing and inspection activities reported by the Department for Fiscal Year 1995 and the amount of revenue recorded. We also reviewed seven inspection and licensing programs to determine what the revenue was used to fund.

We found that a proper relationship exists between reported licensing/inspection levels and the amount of revenue recorded. We also found that the most common expenditures for the programs we reviewed were for personal services (including Department employees and contracted services), indirect-cost assessment, travel per diem and motor pool costs for inspectors, and building rental costs.

In addition, we reviewed the following accounting cycles in the Department's internal control structure:

- Revenue and cash receipts
- Operating expenditures
- Payroll expenditures
- Capital assets

Overall, the Department has implemented a sound internal control structure. However, we noted one internal control area--cash receipts--in which the Division of Plant Industry can improve.

Receipts Should Be Deposited Timely

Some of the fees collected by the Department of Agriculture's Plant Industry Division are from:

- Registering pesticides and licensing pesticide applicators.
- Inspecting and licensing nursery stock dealers.
- Inspecting and licensing organic produce growers.
- Inspecting and licensing chemigation operators.

License fees and applications are typically received at the Department by mail. The payments are held by the Department's cashier while the applications are reviewed by Plant Division personnel. Once the licensee has been approved, the application is returned to the cashier, who matches the payment to the application and then deposits the payment with the State Treasury.

Payments received for licenses administered by the Plant Industry Division are not deposited immediately with the State Treasury. The payments for each type of license (except pesticide registration) are held for up to three days while the information on the accompanying application form is reviewed by Division personnel.

State Fiscal Rules require that cash receipts be deposited in a timely manner. Not depositing receipts when received increases the risk of loss, theft, or misappropriation. In addition, there is a loss of interest earnings while the payments are being held. Finally, in the Department's current process there is lost productivity while the cashier matches the checks to the applications returned by Division personnel or tracks down applications that have not been returned by Division personnel. Personnel in the Accounting Section at the Department estimate that this process can take from one to three hours per day in peak license renewal periods.

A review was initiated by the Accounting Section for two of the Division's ten programs to determine if the current process is necessary for each type of license. It determined that the fees could be deposited immediately for both pesticide registrations and seed dealer licenses. However, the remaining programs in the Division have not been reviewed and should be.

Recommendation No. 1

The Department of Agriculture should review each program in the Plant Industry Division to determine how the license-application process can be redesigned to result in immediate deposit of receipts.

Department of Agriculture Response

Agree. The Division of Plant Industry will review each program to determine whether the license-application process can be redesigned to result in immediate deposit of receipts. Programs which can be redesigned will be implemented where possible during the 1996-1997 fiscal year license cycle.

Performance Measures

We reviewed the performance measures reported by the Brand Inspection Division in its Budget Request in order to determine how the measures relate to the Division's goals. We found that the measures currently reported by the Division do not provide useful information on how well all goals are being met.

Performance Measures Should Address Goals

One of the Brand Inspection Division's primary goals is to reduce livestock theft. However, the Division's performance measures do not address how efficiently and effectively this goal is being achieved. For example, the Division notes that Colorado's livestock theft percentage is one-tenth of 1 percent, but no information is shown on whether this is an increase or decrease in relation to prior years, or how this percentage compares with other states. In addition, no measures are included that show the value of livestock stolen or recovered in relation to program costs.

Lacking useful efficiency and effectiveness measures, the Division cannot demonstrate that it manages its program in the most prudent manner. It should develop these types of measures. This would also provide information to management, legislators, and other interested parties for use in decision making.

Recommendation No. 2

The Brand Inspection Division should:

- a. Develop effectiveness and efficiency measures related to its goal of reducing livestock theft.
- b. Report the results of these measures in its Budget Request.

Department of Agriculture Response:

Agree. The effectiveness and efficiency measures related to reducing livestock theft will be developed by July 31, 1996, for the Department's 1998 Budget Request, and the results will be reported in the 1999 Budget Request.

Employee Performance Appraisals

As part of our audit, we reviewed the Department's system for administering employee performance appraisals. Our review concentrated primarily on the review of performance appraisals for inspectors in the Plant Division, the Inspection and Consumer Services Division, and the Brand Inspection Division.

In evaluating its employees, the Department uses the *Performance Appraisal for Colorado Employees (PACE)* issued by the Department of Personnel. We found that the Department is generally doing a good job of ensuring that all employees receive yearly performance evaluations, as required by PACE guidelines. However, of the 60 employee files we selected for review, 2 contained no evidence of an evaluation for the past 12-month period. Department personnel stated that they were aware of one of these instances and that an evaluation was completed, but was not given to the employee because management did not support the evaluation.

Documentation of Interim Evaluations Should Be Improved

One area in which the Department can improve is documentation of progress reviews. Progress reviews are required to be held with each employee at least once during the year before the final performance appraisal is completed. The purpose of the progress review is to identify and communicate areas where problems with employee performance may exist, and provide the employee with an opportunity to correct any problems before the final evaluation. It is also an opportunity to reinforce positive employee behavior. Of the 15 files we reviewed for progress reviews, 9 were either incomplete or not completed at all. Documenting a progress review serves to remind the supervisor of the employee's performance over the course of the whole year. This reduces the likelihood that the supervisor will focus only on performance toward the end of the appraisal period, which is one of the common errors noted in the PACE guidelines.

In addition, we found that the Department does not consistently document follow-up on employees who have received a "corrective-action" plan. A corrective-action plan is designed to correct and improve employee performance or behavior in a formal, systematic manner. We reviewed the files for two employees who had received corrective-action plans in the past year, and neither had any documented follow-up. If follow-up on corrective actions is not performed and documented, it may be difficult to successfully implement future personnel actions. Industry literature states that in most cases where employees successfully grieved disciplinary

actions, managers had not built a record which sufficiently documented the employee's unacceptable behavior.

We believe the Department should ensure that all employee evaluations are completed yearly, and that progress reviews and follow-up of corrective-action plans are documented.

Recommendation No. 3

The Department of Agriculture should ensure all supervisors:

- a. Perform all employee evaluations on a yearly basis.
- b. Provide all employees with progress reviews at least once during the evaluation period, and properly document the reviews.
- c. Document follow-up on corrective-action plans.

Department of Agriculture Response:

Agree. The Department will continue to remind all supervisors of the Performance Appraisal (PACE) and specifically remind them of their responsibility for the documented progress reviews due at least once during the evaluation period. Corrective-action-plan follow-up will be documented.

Licenses and Inspections

We reviewed the Department's most recent Budget Request to determine how well the planned levels of inspections and licenses relate to actual performance. We selected 14 performance measures reported by the Department in its Budget Request and compared the planned levels of activity with actual performance for Fiscal Year 1995. The measures included the number of licenses issued, inspections performed, products registered, livestock brands issued, and livestock brands transferred.

We found that the Department generally did a good job of estimating the level of activity anticipated during the year. Of the 14 activities we reviewed, the difference between the estimated and actual level of service was more than 3 percent in four instances. Three of these were reasonable variances when viewed over a three-year period. The fourth instance appears to be an isolated incident.

Prior Year Recommendations

As part of our current audit, we determined the implementation status of three recommendations made to the Department in previous audits. The following table summarizes what we found. The first two recommendations are from the 1994 performance audit at the Department of Agriculture; the last one is from the 1994 State Fair Authority audit.

Recommendation	Status
The Department of Agriculture should improve its methods for allocating program costs by: <ul style="list-style-type: none"> a. Identifying all direct costs associated with its cash-funded programs and allocating the costs appropriately. b. Using the resulting information in its fee-setting methodology. 	Implemented
The Department of Agriculture should improve its method for allocating costs by refining its internal controls which detect inaccuracies and data entry errors.	Implemented
The State Fair Authority and the Department of Agriculture should bring the 1983 lease into compliance with current statutes, particularly the sections pertaining to risk liability and maintenance responsibilities.	Partially Implemented

The Department of Agriculture has done a good job of revising the lease with the State Fair Authority. The final recommendation above is reported as only partially implemented because the Authority has not submitted its maintenance plans to the Department at this time. The revised lease does address this issue by requiring the Authority to:

1. Have a Facilities Audit Report prepared by a qualified architect or engineer by February 1, 1996, and at least every three years thereafter.

2. Submit an annual maintenance plan describing the Authority's plans for maintaining the premises during the next five years. The first plan is due February 1, 1996.
3. Submit an annual maintenance report describing the maintenance actually performed in the prior year. This report is to include explanation for any variances between the maintenance plan and the maintenance actually performed. The first report is due February 1, 1996.

Distribution

Copies of this report have been distributed to:

Legislative Audit Committee (12)

State Agricultural Commission (10)

Department of Agriculture
Executive Director (10)

Joint Budget Committee (3)

Department of Personnel
d.b.a. General Support Services
Executive Director (2)

Honorable Roy R. Romer, Governor

Office of State Planning and Budgeting (2)

Depository Center, Colorado State Library (4)

Joint Legislative Library (6)

State Archivist (permanent copy)

National Conference of State Legislatures (2)

Legislative Legal Services

Auraria Library

Colorado State University Library

Copies of the Report Summary have been distributed to:

Members of the Colorado General Assembly

Members of the National Legislative Program Evaluation Society

National Association of State Auditors, Comptrollers, and Treasurers

Report Control Number 13605